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MARKETS | HEARD ON THE STREET

GameStop in Crossfire of Videogame Shootout

Retailer says even some big new games are underperforming

GameStop still depends primarily on selling physical games in actual stores. PHOTO: PATRICK T. FALLON/BLOOMBERG NEWS

By Dan Gallagher

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This season's videogame shootouts aren't taking place in stores—not as much as they used to anyway.

That has wounded GameStop . GME -6.63% ▼ In its fiscal third quarter results late Thursday, the retailer noted that some major recently released games have underperformed the company's expectations. In a conference call with analysts, GameStop executives mentioned "Call of Duty: Black Ops 4" from Activision Blizzard ATVI -5.10% ▼ and "Fallout 76" from Bethesda Softworks as examples. They didn't single out "Battlefield V" from Electronic Arts , EA -2.72% ▼ but described "a couple of November launches" that contributed to its reduced earnings outlook for the year. "Battlefield V" went on sale last week.

This may appear to be bad news for those publishers, who are competing sharply this season with each other as well as the popular "Fortnite" from Epic Games and "Red Dead Redemption 2," the blockbuster hit released by Take-Two Interactive TTWO -2.00% ▼ last month. That isn't necessarily so.

More console and PC games are sold as digital downloads with each passing year, eliminating the need to walk into a store and buy a disk. In an earnings call earlier this month, Activision Chief Financial Officer Spencer Neumann said about 30% of new sales for last year's "Call of Duty" release were as digital downloads and that he expects to

see a shift of more than 5 percentage points with this year's version, based on early sales data.

That bodes poorly for GameStop, which despite efforts to diversify its business, still depends primarily on selling physical games in actual stores. New videogame software is the company's largest segment, typically making up about 30% of total revenue. Analysts expect GameStop's new game software sales to fall 7% in the current fiscal year. They are down 40% from their peak in 2011.

Many of those disks also end up cycled back into the company's used-game business—its largest source of profits. Not coincidentally, GameStop cited weakness in its used game business as another big reason that it cut its per-share earnings outlook for the current fiscal year by 17% at the midpoint.

GameStop's shares—already down 18% for the year—were down another 10% before Friday's open. To make matters worse, the retailer is in the awkward position of hunting for both a permanent CEO as well as a potential buyer. A deal struck last week to sell off its problematic Spring Mobile business should make both tasks a bit easier. Whoever ends up running GameStop next will still have their work cut out for them, though. Selling videogames isn't what it used to be.

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